

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.

A) What is meant by aggregation? What is the problem caused by that?

B) Suppose that as I expect, GDP has been growing since August 2009. Let's also assume that we get back to full employment in November of 2010. What will be the official end of the recession? Explain your logic.

2) (14 points) Explain EITHER the equation in Part A OR the equation in Part B.

A) $S_{Govt} = (T - TR - INT) - G$

B) $I = S_{Pvt} + S_{Govt} - CA$

3) (14 points) Use this data to calculate EITHER the variables in Part A OR the variables in Part B. Ignore any data which is used for the other half of the question. Consumers buy \$1000 worth of goods. Firms buy \$500 worth of machines. The government buys \$600 worth of services. We import \$150 worth of goods and export \$200 worth. We paid foreigners \$12 worth of interest and received \$10. Capital lost \$40 worth of value. Firms paid \$30 worth of indirect business taxes and retained \$25 of earnings. Consumers paid \$120 worth of income tax. Show all work. If you need data which is not provided, assume it is zero.

A) Use the data above to calculate GDP, GNP, and NNP.

B) Suppose I told you that NNP was \$2108. Use that fact and the data above to calculate NI, PI, and DPI.

4) (16 points) Answer EITHER Part A OR Part B.

A) Developing countries state that using real GDP per capita as a measure of how well off they are, is not fair because it will systematically underestimate the output per capita. Explain their logic mentioning at least two problems.

B) Other than the fact that GDP leaves out items which be counted – which is discussed in Part A – there are other problems with using real GDP per capita as a measure of how well off we are. What are two of those problems?

5) (18 points) Answer EITHER Part A OR Part B.

A) What are the four categories of unemployed? For two of them, are they usually short-term or long-term unemployment? Explain your logic.

B) How do the income and substitution effects relate to the labor supply curve? Given the way we draw it, which effect are we assuming to be stronger? Explain your logic.

6) (28 points) Answer EITHER Part A OR Part B.

A) Illustrate an increase in the population on the NS/ND diagram and the production function with labor on the horizontal axis. Show the before and after points on both graphs. Explain why the curve(s) moved as drawn. What happens to the amount of labor hired, the wage rate, and the amount of production?

B) Illustrate an increase in the income tax on the NS/ND diagram and the production function with labor on the horizontal axis. Show the before and after points on both graphs. Explain why the curve(s) moved as drawn. What happens to the amount of labor hired, the wage rate, and the amount of production?